PUERTO RICO TOURISM DEVELOPMENT FUND
(A Component Unit of Government Development Bank for Puerto Rico)

Basic Financial Statements and
Required Supplementary Information

June 30, 2013

(With Independent Auditors' Report Thereon)

PUERTO RICO TOURISM DEVELOPMENT FUND

(A Component Unit of Government Development Bank for Puerto Rico)

June 30, 2013

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KPMG LLP
American International Plaza
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San Juan, PR 00918-1819

Independent Auditors' Report

The Board of Directors
Puerto Rico Tourism Development Fund:

We have audited the accompanying financial statements of the Puerto Rico Tourism Development Fund (the Tourism Fund), a component unit of the Government Development Bank for Puerto Rico (the Bank), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Tourism Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Tourism Development Fund as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in note 1 to the financial statements, the Tourism Fund has accumulated a significant deficit as a result of the concentration of risk on its loans and guarantees and letters of credit portfolio.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

May 1, 2014

Stamp No. E101062 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

As financial management of the Puerto Rico Tourism Development Fund (the Tourism Fund), we offer readers of the Tourism Fund's financial statements this narrative overview and analysis of the Tourism Fund's financial performance during the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with the basic financial statements, which follow this section.

Financial Highlights

- Total assets amounted to approximately $376 million at June 30, 2013, decreasing by approximately $105 million, when compared to June 30, 2012.
- Fiscal year 2013 ended with a change in net position (deficit) of approximately $169 million, a decrease of approximately $52 million when compared to a change in net position (deficit) of $221 million in fiscal year 2012.
- Operating revenues decreased approximately $12 million, or 77%, as a result of a decrease in the guarantee fees of approximately $300,000 and a decrease in interest income of approximately $11.7 million.
- At June 30, 2013, outstanding guarantees and letters of credit issued increased to approximately $533 million from approximately $461 million at June 30, 2012.

Overview of the Financial Statements

This report includes this management's discussion and analysis section, the independent auditors' report, and the basic financial statements of the Tourism Fund. The basic financial statements also include notes that explain in more detail some of the information in the basic financial statements.

Required Financial Statements

The financial statements of the Tourism Fund report information using accounting methods similar to those used by private sector enterprises. The balance sheet provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Tourism Fund and assessing its liquidity and financial flexibility.

Revenues and expenses are accounted for in the statement of revenues, expenses, and change in net position (deficit). This statement measures the success of the Tourism Fund's operations over the past year and can be used to determine whether the Tourism Fund has successfully recovered its costs from the revenues it generates.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and noncapital financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the Tourism Fund

The balance sheet and the statement of revenues, expenses, and changes in net position (deficit) report information about the Tourism Fund's activities in a way that will help determine whether the Tourism Fund as a whole is better or worse financially as a result of this year's activities. These two statements report the net position (deficit) of the Tourism Fund and the changes in them. The Tourism Fund's net position (deficit) – the difference between assets and liabilities – is one way to measure financial health or financial position. Over time, increases or decreases in the Tourism Fund's net position (deficit) are one indicator of whether its financial health is improving or deteriorating. However, it is important to consider other nonfinancial factors such as changes in economic conditions particularly in the tourism industry, and new or changed government legislation.

Condensed financial information on assets, liabilities and net position (deficit) is presented below (in thousands):

	June 30		Change	
	2013	**2012**	**Amount**	**Percent**
Current assets	$ 60,809	31,449	29,360	93.4%
Noncurrent assets	315,532	449,620	(134,088)	(29.8)
Total assets	$ 376,341	481,069	(104,728)	(21.8)
Current liabilities	$ 120,789	37,749	83,040	220.0
Noncurrent liabilities	491,635	509,956	(18,321)	(3.6)
Total liabilities	612,424	547,705	64,719	11.8
Net position (deficit)	(236,083)	(66,636)	(169,447)	254.3
Total liabilities and net position	$ 376,341	481,069	(104,728)	(21.8)

Total assets decreased by approximately $105 million or 21.8% during the year mainly due to a decrease in investments of approximately $73.4 million and due to the increase in the allowance for loan losses of approximately $24 million. During fiscal year 2013, the Tourism Fund accepted the redemption of $50 million in Class B preferred special interest of Desarrolladora del Norte due in December 2014, and approximately $22 million in other investments to provide financing to tourism projects.

Total liabilities increased by approximately $65 million or 11.8% during the year mainly due to an increase in current liabilities of approximately $83 million and due to a decrease in noncurrent liabilities of approximately $18.3 million. Increase in noncurrent liabilities and decrease in noncurrent liabilities is mainly related to an increase in the current portion of loans payable to Government Development Bank for Puerto Rico (the Bank). Loan payable to the Bank decreased by approximately $87 million which is composed of cash payments of approximately $72.2 million, loan payable disbursements of approximately $9.5 million and $18 million of noncash loan payable release. Please refer to note 7 for additional disclosure of loans payable to the Bank. During the year, the allowance for guarantees and letters of credit increased by approximately $156 million. The increase is principally due to an allowance for a guarantee agreement of approximately $96 million recorded during the year.

Condensed financial information on revenues, expenses, and changes in net position (deficit) is presented below (in thousands):

	Years ended June 30 2013	Years ended June 30 2012	Change Amount	Change Percent
Operating revenues:				
Guarantee and other fees	$ 2,929	3,224	(295)	(9.2)%
Interest income on loans	660	12,366	(11,706)	(94.7)
Total operating revenues	3,589	15,590	(12,001)	(77.0)
Total operating expenses	196,555	238,885	(42,330)	(17.7)
Operating loss	(192,966)	(223,295)	30,329	(13.6)
Nonoperating revenues (expenses)	(5,262)	2,532	(7,794)	(307.8)
Contribution from Government Development Bank for Puerto Rico	28,781	—	28,781	100.0
Change in net position	(169,447)	(220,763)	51,316	(23.2)
Net position (deficit) – Beginning of year	(66,636)	154,127	(220,763)	(143.2)
Net position (deficit) – End of year	$ (236,083)	(66,636)	(169,447)	254.3

The change in net position for the fiscal year 2013 amounted to a negative $169.4 million, which is approximately $51.3 million or 23.2% less than change in net position (deficit) for the year ended June 30, 2012. The decrease is mainly the result of the contribution of approximately $29 million received from the Bank and the decrease in operating revenues of approximately $12 million. Interest income on loans decreased mainly due to the increase in nonperforming loans. During the year ended June 30, 2013, the average impaired loans amounted to approximately $369 million compared to the average impaired loans in 2012 that amounted to approximately $282 million. During the year the combined provisions for loan losses and guarantee and letters of credit experienced a decrease of $41.7 million.

Economic Factors

The financial results of the Tourism Fund are impacted significantly by the economic activity of the tourism industry. During the first ten months of fiscal year 2013, the number of persons registered in tourist hotels, including residents of Puerto Rico and tourists, was approximately 1.8 million, an increase of 5.5% over the number of persons registered during the same period of fiscal year 2012. The average occupancy rate in tourist hotels during the first ten months of fiscal year 2013 was 72.4%, an increase of 3.9% from the prior fiscal year. Also, during the first ten months of fiscal year 2013, the average number of rooms available in tourist hotels increased by approximately 1.8% to 12,000 rooms compared to the same period of fiscal year 2012.

If this trend of improvement is not sustained the Tourism Fund will likely continue to suffer significant losses on both its loans and guarantees and letters of credit programs. The deficit of the Tourism Fund, is mostly due to the increase of the allowance for loan losses and allowance for guarantees and letters of credit. The Tourism Fund expects to cover this deficit through future contributions from the Commonwealth as permitted by the legislation that created the Tourism Fund (See note 2(g) of the basic financial statements).

Contacting the Tourism Fund's Financial Management

This financial report is designed to provide a general overview of the Tourism Fund's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Puerto Rico Tourism Development Fund, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO TOURISM DEVELOPMENT FUND

(A Component Unit of Government Development Bank for Puerto Rico)

Balance Sheet

June 30, 2013

Assets

Current assets:		
Cash held with Government Development Bank for Puerto Rico	$	21,710,611
Deposits placed with Government Development Bank for Puerto Rico		1,500,000
Investments		33,771,125
Loans receivable		1,371,665
Accrued interest receivable		364,026
Other receivable		1,800,000
Other assets		291,280
Total current assets		60,808,707
Noncurrent assets:		
Investments		119,263,712
Loans receivable – net		196,268,295
Total noncurrent assets		315,532,007
Total	$	376,340,714

Liabilities and Net Position (Deficit)

Current liabilities:		
Accrued interest payable	$	7,342,778
Accounts payable and accrued liabilities		1,139,115
Loans payable to Government Development Bank for Puerto Rico		87,500,000
Participation agreement payable		866,664
Allowance for losses on guarantees and letters of credit		23,940,462
Total current liabilities		120,789,019
Noncurrent liabilities:		
Loans payable to Government Development Bank for Puerto Rico		244,258,021
Allowance for losses on guarantees and letters of credit		223,904,792
Participation agreement payable		23,472,225
Total noncurrent liabilities		491,635,038
Total liabilities		612,424,057
Unrestricted net position (deficit)		(236,083,343)
Total	$	376,340,714

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM DEVELOPMENT FUND

(A Component Unit of Government Development Bank for Puerto Rico)

Statement of Revenues, Expenses, and Changes in Net Position (Deficit)

Year ended June 30, 2013

Operating revenues:		
Guarantee and other fees	$	2,928,652
Interest income on loans		660,415
Total operating revenues		3,589,067
Operating expenses:		
Interest expense		15,493,547
Provision for loan losses		23,773,732
Provision for losses on guarantees and letters of credit		155,913,928
Professional fees		683,006
Management fees to Government Development Bank for Puerto Rico		411,276
Other		279,195
Total operating expenses		196,554,684
Operating loss		(192,965,617)
Nonoperating revenues (expenses):		
Interest income on deposits placed with Government Development Bank for Puerto Rico and investments		1,530,251
Net decrease in fair value of investments		(8,598,533)
Other income		1,805,616
Contribution from Government Development Bank for Puerto Rico		28,781,250
Total nonoperating revenues (expenses), net		23,518,584
Change in net position (deficit)		(169,447,033)
Net position (deficit) – Beginning of year		(66,636,310)
Net position (deficit) – End of year	$	(236,083,343)

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM DEVELOPMENT FUND
(A Component Unit of Government Development Bank for Puerto Rico)

Statement of Cash Flows

Year ended June 30, 2013

Cash flows from operating activities:		
Guarantee and other fees collected	$	3,287,541
Management fees paid to Government Development Bank for Puerto Rico		(430,621)
Cash paid to service providers and for other operating expenses		(1,641,495)
Net cash provided by operating activities		1,215,425
Cash flows from noncapital financing activities:		
Interest paid		(350,106)
Principal payments on loans payable and participation agreement		(72,216,667)
Net decrease in deposits		(2,000,000)
Proceeds from loans payable		9,491,329
Net cash used in noncapital financing activities		(65,075,444)
Cash flows from investing activities:		
Net increase in deposits placed with Government Development Bank for Puerto Rico		11,875,816
Interest collected on deposits placed with bank and investments		1,588,945
Proceeds from redemptions and maturities of investments		92,751,657
Purchases of investments		(38,875,668)
Interest collected on loans receivable		428,388
Principal collected on loans receivable		42,152,834
Origination of loans		(35,119,653)
Net cash provided by investing activities		74,802,319
Net change in cash		10,942,300
Cash – Beginning of year		10,768,311
Cash – End of year	$	21,710,611

See accompanying notes to basic financial statements.

PUERTO RICO TOURISM DEVELOPMENT FUND
(A Component Unit of Government Development Bank for Puerto Rico)

Statement of Cash Flows

Year ended June 30, 2013

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (192,965,617)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Provision for losses on guarantees and letters of credit	155,913,928
Provision for loan losses	23,773,732
Interest income on loans	(660,415)
Interest expense	15,493,547
Changes in operating assets and liabilities:	
Decrease in other assets	357,549
Decrease in accounts payable and accrued liabilities	(697,299)
Total adjustments	194,181,042
Net cash provided by operating activities	$ 1,215,425
Noncash investing and noncapital financing activities:	
Accretion of discount on investments	$ 49,875
Capitalized interest on loans payable to Government Development Bank for Puerto Rico	5,616,724
Contribution from Government Development Bank for Puerto Rico	(28,781,250)
Decrease in fair value of investments	(8,598,533)
Principal and interest activity of participation agreement	1,253,035

See accompanying notes to basic financial statements.

(1) Reporting Entity

Puerto Rico Tourism Development Fund (the Tourism Fund) is a component unit of Government Development Bank for Puerto Rico (the Bank). The Tourism Fund is considered a component of the Bank since the board of directors is substantially the same as the board of directors of the Bank and the Bank can impose its will on the Tourism Fund. The Bank is a component unit of the Commonwealth of Puerto Rico (the Commonwealth).

The Tourism Fund was created by resolution of the Bank's board of directors in 1993 to promote the hotel and tourism industry of the Commonwealth by making capital investments in, or by providing financing directly or indirectly (through the use of letters of credit and guarantees) to entities that can contribute to the development of this industry. The Tourism Fund is exempt from taxation in Puerto Rico.

The Tourism Fund is exposed to a concentration of risk on its loans and guarantees and letters of credit portfolio (small number of large loans and guarantees, geographical concentration in Puerto Rico and concentration in the hotel and tourism industry). The decrease in the economic activity in the hotel and tourism industries experienced in recent years has caused significant losses and an accumulated net deficit in the Tourism Fund. This deficit is mostly due to the allowance for loan losses and allowance for guarantees and letters of credit which have significantly increased in recent years. The Tourism Fund expects to cover this deficit through future contributions from the Commonwealth as permitted by the legislation that created the Tourism Fund (See note 2(g) of the basic financial statements). The Bank, subject to Board approval, has committed to provide necessary financial support through the extension of credit facilities to satisfy obligations, except for amounts owed from the Tourism Fund to the Bank, as they become due through July 1, 2015. Further, if the Tourism Fund, after payment of operating expenses, has insufficient resources, the Bank has committed that it will not require payment of outstanding loans from the Tourism Fund to the Bank through that same time period.

(2) Summary of Significant Accounting Policies

The accounting and reporting policies of the Tourism Fund conform to U.S. generally accepted accounting principles (GAAP), applicable to governmental entities. The Tourism Fund follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Following is a description of the Tourism Fund's most significant accounting policies:

(a) Measurement Focus and Basis of Accounting

The Tourism Fund's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

(b) Classification of Revenues and Expenses

Operating revenues and expenses are distinguished from nonoperating items. The principal operating revenues of the Tourism Fund are interest earned on loans granted to developers of tourism projects, and guarantee and other fees collected from developers of tourism projects. Operating expenses include the provisions for losses on guarantees and letters of credit and on loans, interest expense related to financings used to fund the origination of loans or to honor guarantee disbursements, and those expenses related to the administration of the entity. All other revenues and expenses not meeting these criteria are reported as nonoperating revenues and expenses.

(c) Guarantee and Other Fees

Guarantee and other fees collected in advance are amortized over the life of the related guarantee using the straight-line method.

(d) Investments

Investments and investment contracts are reported at fair value, except for money market instruments and participating investment contracts with a remaining maturity at the time of purchase of one year or less, and nonparticipating investment contracts (guaranteed investment contracts), which are reported at cost; and investment positions in 2a-7 like external investment pools, which are reported at the pools' share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in net increase (decrease) in fair value of investments.

Investments in preferred stock that either are required to be redeemed by the issuing entity or are redeemable at the option of the investor, are reported at fair value. Investments in preferred stock, excluding preferred stock that either is required to be redeemed by the issuing entity or is redeemable at the option of the investor, are reported at fair value when it is readily determinable. If fair value is not readily determinable preferred stock is reported at cost, adjusted for other-than-temporary impairment. Fair value is determined based on quotations received from independent broker/dealers. Realized gains and losses from the sale of investments, unrealized changes in the fair value of outstanding investments, and other-than-temporary impairment losses are included in net increase (decrease) in fair value of investments.

(e) Loans and Allowance for Loan Losses

Loans are presented at the outstanding unpaid principal balance reduced by any charge-offs and the allowance for loan losses. The accrual of interest on loans ceases when loans become past due over six months. Once a loan is placed in nonaccrual status, all accrued interest receivable is reversed from interest income. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Management reinstates a nonaccrual loan to accrual when the borrower has totally satisfied all amounts due.

The allowance for loan losses is established through provisions charged to operations. The allowance is based on management's evaluation of the risk characteristics of the loans, including such factors as the nature of individual credits outstanding, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and general economic conditions. Loan charge-offs are recorded against the allowance when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously charged off are credited to the allowance for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the outstanding loans receivable portfolio and the related allowance may change in the near future.

Loans considered to be impaired are generally reduced to the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, by allocating a portion of the allowance for loan losses to such loans. If these allocations cause increases to the allowance for loan losses, such increase is reported as provision for loan losses. Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Tourism Fund will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income and cash receipts on impaired loans are accounted for predominantly in the same manner as nonaccrual loans.

As a general procedure, the Toursim Fund internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired that exceed certain thresholds. Appraisals may be adjusted by management due to their age, property conditions, geographical area or general market conditions as deemed necessary. The adjustments applied are based upon internal information, such as other appraisals and/or loss severity information available in several real estate market publications.

(f) Transfers of Receivables

Transfers of receivables are accounted and reported as a sale if the Tourism Fund's continuing involvement with the receivable is effectively terminated. This approach distinguishes transfers of receivables that are sales from transfers that are collateralized borrowings.

The Tourism Fund's continuing involvement is considered to be effectively terminated if all of the following criteria are met: (i) the transferee's ability to subsequently sell or pledge the receivables is not significantly limited by constraints imposed by the transferor, either in the transfer agreement or through other means, (ii) the transferor does not have the option or ability to unilaterally substitute for or reacquire specific accounts from among the receivables transferred, except in certain limited circumstances, (iii) the sale agreement is not cancelable by either party, including cancellation through payment of a lump sum or transfer of other assets or rights, and (iv) the receivables and the cash resulting from their collection have been isolated from the transferor.

(g) Allowance for Losses on Guarantees and Letters of Credit

Management periodically evaluates the credit risk inherent in the guarantees and letters of credit on the same basis as loans are evaluated. The Tourism Fund charges as expense the amount required to cover estimated losses by establishing a specific allowance component for guarantees and letters of credit relating to loans in default, determined on the basis of the estimated future net cash outlays in connection with the related guarantees and letters of credit or the fair value of the collateral, and a general component for the risk inherent in certain other guarantees and letters of credit outstanding, established as a percentage of the principal amount of the underlying loans, based on the Tourism Fund's loss experience on financial guarantees and letters of credit, and management's best judgment.

When a guarantee or letter of credit is honored, the Tourism Fund recognizes any disbursement as a nonperforming loan; therefore, no interest is accrued on the principal. After a specific analysis of the provision requirements, the related allowance included in the allowance for guarantees and letters of credit is reclassified to the allowance for loan losses. Any deficiency in the estimated allowance requirement is recorded as an additional provision to the allowance for loan losses.

The concentration of risk in the guarantees and letters of credit issued, predominantly those issued by the Tourism Fund (small number of large guarantees, geographical concentration in Puerto Rico, industry concentration in hotel and tourism), and other factors, compounds the uncertainty in management's estimate of the allowance for losses on guarantees and letters of credit. As a result, the aggregate losses on guarantees and letters of credit ultimately incurred by the Tourism Fund may differ from the allowance for losses as reflected in the accompanying basic financial statements, and such differences may be material.

Pursuant to the legislation under which the Tourism Fund was created, the executive director of the Tourism Fund is required to certify each year to the director of the Office of Management and Budget of the Commonwealth (OMB) the amount, if any, that is necessary to reimburse the Tourism Fund for disbursements made, as defined, in the previous year in excess of revenues collected (net disbursement). On December 16, 2009, Act No. 173 was enacted, which amended the legislation that created the Tourism Fund, to modify the definition of net disbursement to include disbursements made by the Tourism Fund, for (i) loans to third parties, (ii) the acquisition of loan participations, and (iii) the acceleration of maturities of loans, notes, bonds or other type of debt guaranteed by the Tourism Fund. However, Act No. 173 provides that such disbursements shall not be deemed made in the year in which the disbursement occurs but shall be deemed made in the year in which the executive director of the Tourism Fund determines that a loss was incurred with respect to a loan, note, bond or debt (such determination being referred to as a realized loss). The director of the OMB may include the amount subject to reimbursement in the general budget of the Commonwealth for the following fiscal year for the Legislature's consideration and approval. The Legislature is not obligated to authorize such appropriations. As of June 30, 2013, there were no outstanding claims for reimbursements.

(h) Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, or vice versa. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

- GASB Statement No. 66, *Technical Corrections-2012 – an Amendment of GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.
- GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Once adopted, the Commonwealth will be required to report a liability equivalent to the amount by which the total pension liability exceeds the pension plan's net assets (now referred to as plan net position) available for paying benefits in its accrual-based financial statements (the government wide statement of net position).
- GASB Statement No. 69, Government Combinations and Disposals of Government Operations, which is effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

  The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

- GASB Statement No. 70, *Accounting and Financial Reporting for Non Exchange Financial Guarantees*, which is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a governmental entity guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Certain qualitative factors should be considered when evaluating the likelihood of a guaranty payment, such as: initiation of a bankruptcy process, breach of a debt contract in relation to the guaranteed obligation and indications of significant financial difficulty such as failure to pay agents or trustees.

Management is evaluating the impact that these statements will have on the Tourism Fund's basic financial statements.

(3) Cash with the Bank

Custodial credit risk is the risk that, in the event of a financial institution failure, the Tourism Fund may not be able to recover its deposits. The depository bank balance of $21,585,147 as of June 30, 2013 represents interest bearing demand deposits with the Bank and was uninsured and uncollateralized. The Tourism Fund does not have a formal policy for custodial credit risk for deposits.

(4) Deposits Placed with the Bank

Deposits placed with the bank represent time deposits with the Bank as of June 30, 2013. These time deposits of $1.5 million bear interest at 0.4% and mature in July 2013. This balance was uninsured and uncollateralized.

(5) Investments

The Tourism Fund adopted the investment policies of the Bank. These investment policies allow management to purchase or enter into the following investment instruments:

- U.S. government and agencies obligations
- Certificates of deposit and time deposits
- Bankers' acceptances
- Obligations of the Commonwealth, its public agencies and municipalities
- Federal funds sold
- Securities purchased under agreements to resell
- World Bank securities
- Mortgage-backed and asset-backed securities
- Corporate debt, including investment contracts

- External investment pools
- Stock of corporations created under the laws of the United States of America or the Commonwealth
- Options, futures, and interest-rate swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products which qualify under any of the foregoing investment categories
- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or its equivalent by Moody's

The Tourism Fund's investment policies establish limitations and other guidelines on maturities and amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into. In addition, the Bank's Asset Liability Committee (ALCO), management and the board of directors of the Tourism Fund will determine, from time to time, other transactions that the Tourism Fund may enter into.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Tourism Fund's investment policies provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Moody's Investors Service or Fitch Ratings (Fitch), depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions must be approved by the Tourism Fund's board of directors. The investment policies also provide that purchases and sales of investment securities shall be made using the delivery versus payment procedures.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Tourism's investment policies also provide that the Bank's ALCO is responsible for implementing and monitoring the Bank's interest rate risk policies and strategies. The ALCO meets on a monthly basis to coordinate and monitor the interest rate risk management of interest sensitive assets and interest sensitive liabilities, including matching of their anticipated level and maturities, consistent with the Tourism Fund's liquidity, capital adequacy, risk and profitability goals set by the Tourism Fund's board of directors.

The following table summarizes the type and maturities of investments held by the Tourism Fund at June 30, 2013. Investments by type in any one issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment type		Within one year	After one to five years	After five to ten years	After ten years	Total
U.S. sponsored agencies notes –	$					
Federal Home Loan Bank (FHLB)		8,028,560	—	—	—	8,028,560
Mortgage and asset-backed securities:						
Federal Farm Credit Bank (FFCB)		10,063,000	1,751,742	—	—	11,814,742
Federal National Mortgage Association (FNMA)		—	—	8,756,961	—	8,756,961
Federal Home Loan Mortgage Corporation (FHLMC)		—	—	—	12,836,433	12,836,433
Corporate debt:						
Caterpillar		5,547,875	—	—	—	5,547,875
United Parcel Services		2,050,320	—	—	—	2,050,320
General Electric		—	6,136,800	—	—	6,136,800
Wells Fargo		—	2,020,160	—	—	2,020,160
Walmart Stores		2,049,480	—	—	—	2,049,480
Microsoft, Corp.		—	968,870	—	—	968,870
Amazon		—	2,486,725	—	—	2,486,725
International Business Machine		3,022,830	—	—	—	3,022,830
External investment pools – Fixed-income securities		—	1,036,518	—	—	1,036,518
U.S. Municipal notes		3,009,060	9,879,068	—	—	12,888,128
	$	33,771,125	24,279,883	8,756,961	12,836,433	79,644,402
External investment pools – equity securities:						
Russell 1000 Growth Common Trust Fund						58,979,570
Global Opportunities Capital Appreciation Fund						14,211,583
Flagship						199,282
Total						$ 153,034,837

Investments in fixed income external investment pools had an average maturity of approximately of more than one year. These investments are with the Puerto Rico Government Investment Trust Fund, a government-sponsored pool, which is administered by the Bank. This pool is subject to regulatory oversight by the Commissioner of Financial Institutions of Puerto Rico. The fair value of the pool is the same as the value of the pool shares.

The credit quality ratings for investments in debt securities are as follows:

		Credit risk Rating [1]			
Securities type		**AAA to A-**	**BBB**	**B**	**Total**
U. S. sponsored agencies notes:					
FHLB	$	8,028,560	—	—	8,028,560
Mortgage-backed and asset-backed securities:					
FFCB		11,814,742	—	—	11,814,742
FNMA		8,756,961	—	—	8,756,961
FHLMC		12,836,433	—	—	12,836,433
Corporate debt		24,283,060	—	—	24,283,060
External investment pools:					
Fixed-income securities		1,036,518	—	—	1,036,518
Total	$	58,727,714	—	—	58,727,714

[1] Rating obtained from Standard & Poor's or equivalent rating by Moody's Investor Service or Fitch Ratings.

Redemption of Preferred Stocks

On December 23, 2009, the Tourism Fund invested $50 million in Class B preferred special interest of Desarrolladora del Norte, S. en C., (Desarrolladora del Norte), which is a partnership that owns and operates the Gran Meliá, Puerto Rico Golf Resort and Villa. This investment accrued dividends at an annual rate of 6.50%, which were cumulative and payable when declared by the managing partner and on the date of redemption, as indicated below. Undeclared and accrued dividends up to the redemption date amounted to approximately $11.5 million.

During the year ended June 30, 2013, the Tourism Fund entered into an agreement with Desarrolladora del Norte to redeem its investment in class B preferred special interest for $32 million in cash and an $8 million noninterest bearing promissory note. The noninterest bearing promissory note requires annual payments of $800,000 through June 2023. The Tourism Fund will condone annual payments if Desarrolladora Del Norte maintains it hotels operations in Puerto Rico with approximately 600 employees and complies with other requirements during the term of the contract. Management of the Tourism Fund understands that the collection of the promissory note is contingent upon future events, therefore, the amounts under such promissory note will be recognized once they are collected.

(6) Loans Receivable

As part of the credit facilities offered by the Tourism Fund, it has provided direct loans to tourism development projects.

Total loans receivable as of June 30, 2013 consist of approximately $197.6 million, net of an allowance for possible loan losses of approximately $179 million. Total loans classified as nonaccrual amounted to approximately $370 million.

In September 2012, the Tourism Fund extended a senior loan for $16.1 million to BBR of which $12.5 million was used to pay-off, at a discount, a $26.9 million loan to various commercial lenders. BBR is the corporate entity that owns and operates the Bahía Beach Golf Club, which opened on January 24, 2009, and is an integral amenity of the St. Regis Bahía Beach Resort (St. Regis).

In July 2012, the Tourism Fund extended an interim loan for $2.3 million to BBCH, the corporate entity that owns the St. Regis. In March 2013, this loan was repaid.

The following is a summary of loans considered to be impaired as of June 30, 2013, and the related interest income for the year then ended (in thousands):

Recorded investment in impaired loans:		
Not requiring an allowance for loan losses	$	—
Requiring an allowance for loan losses		369,864
Total recorded investment in impaired loans	$	369,864
Related allowance for loan losses	$	178,821
Average recorded investment in impaired loans		396,708
Interest income recognized on impaired loans		—

The following is a summary of the activity in the allowance for loan losses for the year ended June 30, 2013:

Balance – Beginning of year	$	239,947,260
Provision for loan losses		23,773,732
Write-off		(84,999,973)
Balance – End of year	$	178,721,019

During the year ended June 30, 2013, the Tourism Fund sold a loan receivable to a third party for $50 million. Cash collected during the year ended June 30, 2013, amounted to $40.3 million. The remainder of the amount due under the sales contract ($7.9 million) will be recognized as income when collected as such amount is contingent upon certain action on the part of the Tourism Fund. Thus, and based on the contingent nature of this portion of the sales contract, the Bank has reflected as an account receivable as of June 30, 2013 only the amount actually collected after fiscal year end ($1.8 million) but

(Continued)

before the issuance of these financial statements. Cash collected on such sale is presented in the statement of cash flows as part of the principal collected on loans receivable. During February 2014, a loan was sold to a third party developer for $87.5 million.

(7) Loans Payable to Government Development Bank for Puerto Rico

The Tourism Fund has obtained various lines of credit from the Bank in order to provide loans or invest in tourism projects. These lines of credit contain flexible terms with respect to maturity date and interest rate. They bear variable interest based on the London InterBank Offered Rate (LIBOR) or fixed rates ranging from 2.19% to 6.13% at June 30, 2013, and matures in September 2013 and June 2029. The source of payment of these lines of credit comes from cash flows from the operations of the Tourism Fund.

In December 2009, the Bank approved a loan to the Tourism Fund in order to provide funding to invest $50 million in Desarrolladora del Norte (see note 5 to these financial statement). The Tourism Fund accepted the redemption for $32 million. In May 2013, the board of directors of the Bank approved a resolution whereby, among other, the Bank released the Tourism Fund from paying the amount of $18 million of principal and $10.8 million of interest for its loan with the Bank. As a result of this transaction, the Tourism Fund recorded a contribution from the Bank of approximately $28.8 million. As an investment by Tourism Fund its loss in the investment was not subject to a reimbursement claim (see note 2(g).

Activity of the various lines of credit during the year was as follows:

Investment type		Beginning balance	Additions	Reductions	Ending balance	Due Within one year
Lines of credit	$	406,649,968	15,108,053	90,000,000	331,758,021	87,500,000

(8) Participation Agreement Payable

On April 10, 2006, the Tourism Fund entered into a debt restructuring agreement with Hotel Dorado, S.E. (the Hotel Dorado) and Firstbank Puerto Rico (FirstBank). Said restructuring consisted of the Tourism Fund, as guarantor of the Hotel Dorado’s AFICA bonds, repaying the AFICA bonds. Subsequently, via a Participation Agreement between FirstBank and the Tourism Fund, FirstBank extended a $26 million senior term loan to Hotel Dorado that repaid the Tourism Fund. The FirstBank loan has a $26 million Tourism Fund guarantee.

The Participation Agreement is subject to recourse and the Tourism Fund is obligated to purchase the loan from the financial institution upon the occurrence and during the continuance of an event of default under the participation agreement. The participation agreement also stipulates that the financial institution cannot sell, pledge, transfer, assign or dispose of the Participation Agreement without the Tourism Fund’s consent. Accordingly, the Tourism Fund has recorded the senior term loans as part of loans receivable and has recorded a participation agreement payable (i.e., a collateralized borrowing) in the accompanying balance sheet.

The Participation Agreement bears a variable interest rate, based on the three-month LIBOR plus 2.7826% (the three-month LIBOR rate was approximately 0.47% at June 30, 2013), until maturity on July 1, 2018. Interest is payable on a quarterly basis. The outstanding principal balance of the senior term loan and the corresponding participation agreement payable amounted to approximately $24.3 million as of June 30, 2013.

(9) Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Tourism Fund is party to transactions involving financial instruments with off-balance-sheet risk, to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of amounts recognized in the accompanying balance sheet. These off-balance-sheet risks are managed and monitored in manners similar to those used for on-balance-sheet risks. The Tourism Fund's exposure to credit losses for lending commitments is represented by the contractual amount of those transactions.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments might expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Tourism Fund evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include property, plant, and equipment, and income-producing commercial properties. At June 30, 2013, commitments to extend credit amounted to approximately $173 million.

(10) Commitments and Contingencies

At June 30, 2013, the Tourism Fund had the following outstanding guarantees and letters of credit:

Description		Outstanding commitment amount	Expiration date
DBR Dorado Owner LLC and DBR FD Parcel Two, LLC	$	208,830,145	August 2018
CCHPR Hospitality LLC		154,605,674	August 2017
Serrallés Hotel, Inc. (Ponce Hilton)		50,700,000	April 2033
Palmas Athletic Club		24,900,000	December 2030
Coco Beach Golf and Country Club		24,825,000	December 2030
SGDP Hotel LLC – Condado Lagoon Villas II		24,105,667	June 2020
Embassy Suites Dorado del Mar		15,533,329	July 2018
Bayamón Hotel Company		14,824,959	February 2020
Condado Palm, LLC		12,915,256	May 2023
Manatí Hotel Company		1,883,419	July 2024
Total	$	533,123,449	

Typically, the Tourism Fund provides guarantee for the timely payment of principal and interest on the obligations issued to finance the tourism projects. It also provides other types of credit facilities such as (i) deficiency guarantees where the Tourism Fund guarantees the recovery of any deficiency the lender may realize on the final disposition of the collateral and (ii) direct loans.

On July 14, 2010, the Tourism Fund entered into a guaranty agreement for $231 million of interim and permanent financing to DBR Dorado Owner LLC (DBR) for the development of the Ritz-Carlton Reserve, Dorado Beach Resort and Spa. As of June 30, 2013, the guarantee balance was approximately $197.4 million.

In April 2012, the Tourism Fund extended a $30.4 million guarantee to secure a senior loan from a financial institution to DBR FD Parcel Two LLC (DBR 2), an affiliate of DBR. DBR 2 is the corporate entity that is developing the Dorado project’s phase 2 (Dorado Phase 2) at a cost of $66.2 million. Dorado Phase 2 consists of the construction of twenty four Ritz-Carlton Reserve Branded Residences and certain improvements to the Dorado Beach West Golf Course. This financing is expected to be fully repaid by May 2015.

On August 17, 2010, the Tourism Fund made effective its guarantee to a $157.6 million senior term loan, provided by a financial institution to CCHPR Hospitality LLC (CCHPR). CCHPR is the corporate entity that owns the Sheraton Puerto Rico Hotel & Casino, which opened on November 9, 2009. The loan is payable monthly on the first day of each month, commencing March 1, 2011. In January 2012, the Tourism Fund began to cover the loan monthly interest and principal payments, and has paid a total of approximately $7.5 million through June 30, 2013.

On March 8, 2006, the Tourism Fund entered into a letter of credit and reimbursement agreement to the Serrallés Hotel, Inc. in connection with the $54.4 million Revenue Refunding Bonds 2006, Series A, issued by Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA by its Spanish acronym) for the construction and development of the Costa Caribe Resort Project. As of June 30, 2013 the guarantee balance was $50.7 million.

Since December 24, 2009, the Tourism Fund has honored its guarantee to the Palmas Athletic Club project in connection with the $30 million Revenue Bonds 2000, Series A, (the Revenue Bonds) issued by AFICA. On August 4, 2010, Palmas del Mar Country Club, Inc. (PCCI), the former owner and operator of the Palmas del Mar project, filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. On October 19, 2010, the Bankruptcy court approved the sale of the facilities by PCCI. On October 22, 2010, PCCI sold its facilities, liabilities and obligations, including the Revenue Bonds to the Tourism Fund. On that same date, the Tourism Fund entered into a purchase and sale agreement with Palmas Athletic Club, Corp. (PAC), a not-for-profit corporation, to transfer acquired assets and liabilities that were previously held by PCCI. PAC is currently operating the Palmas del Mar project. As of June 30, 2013, the Tourism Fund had paid approximately $10.8 million to cover the debt service of such bonds since 2009.

On March 30, 2011, a financial institution, as trustee, made a drawing of $25,621,123 on an irrevocable stand-by-letter of credit issued by the Tourism Fund which secured the AFICA, 2000 Series A and 2004 Series A Bonds for the construction and development of the Coco Beach Golf and Country Club. These two series of bonds were refinanced by a new AFICA 2011 Series A for $26,355,000 due on December 20, 2034 on which the Tourism Fund remained as guarantor. Since February 2012, the Tourism Fund has covered the Coco Beach bonds' monthly interest and principal payments, paying a total of approximately $3.2 million through June 30, 2013.

In November 2010, SGDP Hotel LLC, the corporate entity that owns the Condado Lagoon Villas II, defaulted on a loan. Since December 2010, the Tourism Fund has made $606,929 in interest and principal payments to honor its guarantee on the loan. The Tourism Fund received a $137,778 reimbursement from SGDP Hotel LLC as part of a principal moratorium, granted until June 30, 2013, approved by the Tourism Fund and the commercial bank.

On August 2008, the Tourism Fund extended a guaranty to a $12.0 million senior permanent financing to Hotel Dorado, loan issued by FirstBank, for the development of its casino and parking amenities. This guarantee became effective on December 30, 2011, the date that the FirstBank loan was converted into a permanent loan. As of June 30, 2013, the guarantee balance was $11,400,000. Since November 2012, the Tourism Fund has covered the monthly interest and principal payments, paying a total of $638,996 through June 30, 2013.

On November 5, 2010, the Tourism Fund issued a guarantee to a $5.6 million senior permanent loan to Hotel Dorado, loan issued by FirstBank, to purchase slot machines and related equipment for the Embassy Dorado's casino. This guarantee became effective on December 30, 2011, the date that the FirstBank loan was converted into a permanent loan. As of June 30, 2013, the guarantee balance was $3,266,665. Since November 2012, the Tourism Fund has covered the monthly interest and principal payments, paying a total of $281,242 through June 30, 2013.

In February 2012, the Tourism Fund extended a $29.0 million guarantee to a senior interim and permanent loan from a financial institution to Bayamón Hotel Company LLC (BHC) to develop the Hyatt Place Bayamón Hotel at a cost of approximately $49.1 million. This project opened in December 2013.

In May 2012, the Tourism Fund extended a $12.9 million guarantee to a senior private placement of bonds issued by the Condado Palm LLC to develop the Best Western Condado Palm Hotel at a cost of $20.5 million. This project started operations in May 2013.

In July 2012, the Tourism Fund extended a $23.9 million guarantee to a senior interim and permanent loan from a financial institution to Manatí Hotel Company LLC (MHC) to develop the Hyatt Place Manatí Hotel at a $38.0 million cost. This project is expected to open during the first half of 2014.

(Continued)

Following is the activity of the allowance for guarantees and letters of credit for fiscal year 2013:

		Beginning balance	Provision	Recoveries	Charges	Ending balance
Allowance for losses on guarantees and letters of credit	$	91,931,326	155,913,928	—	—	247,845,254

(11) Management Fees

The Bank provides certain management and administrative services to the Tourism Fund for which the Bank charged approximately $411,000 during the year ended June 30, 2013.

(12) Subsequent Events

During March 2014, the Tourism Fund sold all of its investments with a gain of approximately $10.5 million. The proceeds of the sale were invested in a time deposit with the Bank.